Social (Health) Protection and Fiscal Space

Professor Konrad Obermann MD PhD

March 2014
Agenda

- Some bad news and some good news
- Social Protection and political will
- Where do we stand? The issue of measurement
- The importance of demography
- Social protection tools
- Financing and fiscal space
- Where to find the money?
Bad News 1: There is no **perfect** social protection system!

**A system run by the Government**
- would be inefficient (neither central nor decentralized planning really work)
- would not be able to motivate staff
- would not be service- and customer oriented

**A system run as a market**
- would be inefficient (moral hazard, adverse selection, information asymmetry etc.)
- would be regarded as unfair or unjust („human right“)
Bad News 2: There is no **simple** social protection system!

**There is a need for different payment mechanisms**
- at each level of the system and for different groups
- for different types of (health) interventions
- in different regions of the country

- Identification of the needy
- Capitation needs competition
- DRG / cash transfers needs IT
- Big cities have too many doctors
- Remote areas have not enough doctors
Bad News 3: Even if there was one in theory, you would not get it in practice!

You are (almost) never able to implement a system „from scratch“

- Historical developments and decisions determin the possibilities of the present („path dependency“)
- Interest groups will try to protect themselves and prevent reforms that are not in their interest

- Doctors protect their interests
- Mayors want „their“ hospital
- Institutions just keep existing and need a purpose
Framework conditions are always different in each country

- Size of the country
- Economic development
- Technical / IT infrastructure
- Availability of health professionals
- Values of the society
- Political system and tradition

- Big countries need complex structures, smaller ones don’t
- How big is the proportion of poor people?
- Can you run a complex payment system?
Bad News 5: Even if you had the perfect system, you could **not keep** it!

**Framework conditions are constantly changing**

- Economic parameters
- Demographics
- Supply and demand for health care

- Economic crisis
- Ageing society
- Less people studying medicine
- New diseases
The Good News

- You can learn about the **basic principles** of different social protection financing mechanisms
- You can analyze and understand the **framework conditions** in your own country
- You can try to **understand why something worked** or did not work in another country / your own country
- You can get better at **predicting what will happen** if you change something in your system
- You can get better at predicting **what you can change** considering political and other framework conditions
The Need for Social Protection

Social protection helps increasing productivity.
- reduces risks for the whole population covered, and not only for the poor.
- allows people to fully concentrate in their livelihood and economic activities, even taking new entrepreneurial risks, and becoming more productive.
- Productivity per worker is higher in those countries investing more in social protection.

Social protection reduces loss of human capital.

Social protection generates growth by raising domestic demand.
- Poverty and social exclusion make domestic markets very small
- No sustainable economic development without a stable and growing domestic demand.
- Money invested in social protection is an investment. It stays within the economic system and stabilizes it.

Social protection prevents poverty.
- People should not have to sell their assets to pay for health costs.
- People who lose their capacity to work can have access to basic resources.
- Families who lose their breadwinner should be able to get support, etc. Without social protection all these would fall into poverty.

Social Protection helps to develop the rural area
- Up to 40% of demand comes from transfers
- Helps to stop urbanization

Social protection increases social cohesion.
AN EXAMPLE OF A CLEAR-CUT ETHICAL BASIS

Message of Kaiser Wilhelm I to the Reichstag
November 1881

“Already in February of this year We voiced our conviction that the healing of the social damage cannot only be sought through the repression of social riots, but equally on the positive promotion of the welfare of the workers. We consider it our Imperial obligation to again recommend warmly this task to the Reichstag, and we would look back with much greater satisfaction to all the success with which God has obviously blessed Our government, if we were to raise awareness on this issue and bring the fatherland new and permanent guarantees of its internal peace and to help those in need with greater security and efficiency of the assistance to which they are entitled.

... For such assistance it is a difficult task to find the right ways and means, but also one of the highest responsibilities of any community, based on the moral foundations of the Christianity. The close connection to real life forces of this nation and the merging of the latter in the form of corporate co-operatives under state protection and state support will, as we hope, make the solution of tasks possible that the state alone to the same extent could not provide.”
Where do we stand?

Society (income stratification):

- **Social insurance**:
  - 5-20% in LICs
  - 15-50% in MICs
  - Vietnam: 20% (plus 24% with subsidised health insurance only)

- **Commercial insurance**:
  - 2-12%
  - Vietnam: 5%

- **Access to group-based schemes only**:
  - limited in scope & scale
  - little reliable
  - people thus vulnerable

- **Social assistance and subsidised health services**:
  - 0-5%
Measuring is key

What cannot be measured, cannot be improved (Lord Kelvin)

SMART Specific, Measurable, Action-oriented, Realistic, Timely
Poverty impact of health OOPs: The example of Myanmar
What can be done?

Society (income stratification):

- Promote micro-insurance
- Raise coverage of social insurance
- Extend out-reach of social transfer schemes
- Promote down-scaling of commercial insurance

- Informal sector
- Formal sector
Future Perspectives
- demography -

% of Population 60+ in Selected Countries

Obermann: Social (Health) Protection Primer

- Post-war (WW I)
- World War II
- Post-war (WW II)
- Franco-German War 1870/1
- Oral contraception available
- Reunification
## Social Protection Tools: An Overview

- Instruments to prevent and to reduce poverty
- Temporary and permanent – micro and macro level
- Financial instruments, transfers, legal protection, services

<table>
<thead>
<tr>
<th>Financial Instruments</th>
<th>Transfers</th>
<th>Legal Protection</th>
<th>Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tools</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Insurance</td>
<td>CCT</td>
<td>CLS</td>
<td>Job brokerage</td>
</tr>
<tr>
<td>Micro credit</td>
<td>Public works</td>
<td>Labour Law</td>
<td>Training</td>
</tr>
<tr>
<td>Education loans</td>
<td>Family Grants</td>
<td>Human rights</td>
<td>Counseling</td>
</tr>
<tr>
<td>Effects</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Risk pooling</td>
<td>Redistribution</td>
<td>Rights</td>
<td>Strengthen capacity</td>
</tr>
<tr>
<td>Access to assets</td>
<td>Income generation</td>
<td>Safety</td>
<td>Strengthen independence</td>
</tr>
</tbody>
</table>

**CCT** Conditional Cash Transfer  
**CLS** Core Labor Standards
Social Protection Expenditure

- Pensions
  - Social and state pensions
  - Subsidy for contribution finance pensions
- Social Assistance
- Unemployment benefit subsidy
- Public health and health services
- Others
- Total up to 30% of GDP

Developed countries spend huge amounts of their GDP on SP
- US 23% of GDP
- Germany 31% of GDP
- Japan 24% of GDP
- France 34% of GDP
Affordability

• Is Social Protection Affordable?
  – ILO study: all countries can afford
  – Money is not „lost“ and creates demand. If there are pensions, just other people use it.
  – Effects on competitiveness depend on financing mechanisms

• Is Social Protection good for the Economy?
  – Stabilizes demand („automatic stabilizer“)
  – Allows individuals to take risks
  – Shifts responsibilities from families to risk communities
  – Prevents poverty

• What is first – growth or Social Protection?
The Role of Taxes

- Direct taxes
  - Income tax
  - Corporate tax
- Indirect taxes
  - VAT
- Fees and contributions
  - Linked to certain services

- Tax income normally is not linked to certain expenses

14.03.15
Contributions

• Types of contributions:
  – Flat,
  – Linked to income
  – Scaled / Brackets
  – Linked to certain services
• Payment of contributions
  – Employer
  – Employee
  – State
Fiscal Space: Money available for spending by the state

Domestic sources

- **A higher tax burden**: raising tax rates, new taxes (tobacco!), and strengthening revenue administration efforts
- **Cutting** expenditure, particularly unproductive expenditure
- **Enhancing effectiveness of current spending**
- **Promoting a high-growth initiating form of expenditure**—higher growth rates can facilitate greater future revenue potential
- **Seignorage** (printing money) a potential source of some fiscal space (0.5-1.0 percent of GDP (the latter with a 6% inflation rate)
- **Domestic borrowing**

External resources

- **External grants**: an obvious source of additional fiscal space but still subject to sustainability concerns if not of predictable, long-term duration
- **Borrowing**: How concessional? debt sustainability analysis important—clarify threshold. Recent debt cancellation initiative raises important issues
The politics of using fiscal space (I)

There is likely to be competition from other parts of government for any available fiscal space.

Infrastructure is vital for growth.

Other social sector needs: “exceptionality” of health argument not universally accepted.

MOF may seek to rely on external resources for budgetary support, shifting domestic resources to non-aided sectors.

MOH similarly may seek to take advantage of external resources from vertical programmes.
The politics of using fiscal space (II)

Some expenditure programs, once started, effectively preempt future fiscal space.

Financial incentives for medical care workers / supplementing wages distort the wage scale in relation to other public sector employees.

Do not confuse fiscal space with other constraints:
- Governance limits / corruption
- Insufficient investment policy
- Absorptive capacity limits (e.g., human resources)
- Transfer inefficiency (how much does actually reach the needy)
- Concern about vulnerability associated with excessive dependency on external donors
Management issues

Particular caution about borrowing for recurrent type expenditure programs with benefits only realizable over the long-term

There will be many temptations from creditors to provide new loans

Need for prudential debt management/expenditure assessment procedures

Greater long-term predictability in donor assistance thus enhances fiscal space!
But: . Cannot assume external support forever
Where to find the money?

1. Conducive Macroeconomic Conditions
2. Re-Prioritization of Social (Health) Protection
3. Increase in Sector-Specific Resources
4. Sector-Specific Grants and Foreign Aid
5. Increase in Efficiency of Expenditures

plus

6. Innovative Modes of Financing (Taskforce: Airline tickets, tobacco tax, international financing facility, )
Arrival by Airline Supplement (AAS):
3.5m visitors annually, everyone pays Kyat 20,000 = 70bn Kyats

SMS Texting for Social Peace:
1 Kyat per text message, around 5 message per day for all 52m Myanmar people = 260m Kyats per day / 95bn Kyats annually

Road Protection Scheme (RPS):
30.000 new cars per months put on the road, one-off payment of 50.000 Kyats = 1.5bn Kyats per months / 18 bn Kyats annually

Budget of the Ministry of Welfare: 10bn Kyats
Inclusive growth right from the beginning

As Asian governments manage these risks, they must also act to ensure that steady growth can continue in the decades ahead. The region’s past economic growth lifted hundreds of millions of Asians out of poverty, but now widening inequality is undermining this success. During the 1990s and 2000s, more than 80% of the region’s population lived in countries with worsening Gini coefficients, a common measure of inequality. The same market forces that enhanced growth—globalization, technological progress, and market reform—now exacerbate inequality.

International experience shows that public spending can reduce income inequality. Government spending on education and health care, for example, broadens access for the poor to these vital services and levels the playing field.

THANK YOU!

Konrad Obermann
Info@konrad-obermann.de
A more formal definition

‘The availability of budgetary room that allows a government to provide resources for a desired purpose without any prejudice to the sustainability of a government’s financial position’

(P Heller, IMF, 2005)

‘The gap between the current level of expenditure and the maximum level of expenditures that a government can undertake without impairing its solvency’

(Development Committee of the joint World Bank-IMF Board 2006)